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SUMMARY OF VARIATION OF COSTS BY CONTRACT~~EXHIBIT A~~

Contract Item No.	DESCRIPTION	Sch. Ref.	Direct Material	Factory Labor & Overhead	Factory Cost Variance	Eng'g Mat'l	Eng'g Labor	Tools & Test Equip't	G&A	TOTAL	
7	<u>Contractor's Proposal</u>			\$ 11,964	\$ 3,590	\$ 47,868 18,333	\$ 92,397	\$ 26,489 3,117	\$ 182,308 21,450		
	Incurred costs										
	Estimated costs										
	Total -			<u>11,964</u>	<u>3,590</u>	<u>66,201</u>	<u>92,397</u>	<u>29,606</u>	<u>203,758</u>		
7	<u>Questioned Costs</u>										
	Incurred Costs - Variance Factor	1			2,251						
	G&A	6									
	Estimated Costs - Purchase commitments	4				15,000					
	G&A	6									
	Total -				<u>2,251</u>	<u>15,000</u>					
7	<u>Accepted Costs</u>										
	Incurred Costs			11,964	1,339	47,868 3,333	92,397	18,750 500	172,318 - See Note 1 3,833		
	Estimated Costs										
	Total -			<u>11,964</u>	<u>1,339</u>	<u>51,201</u>	<u>92,397</u>	<u>19,250</u>	<u>176,151</u>		
Note 1: In accordance with Schedule 4, paragraph (a) it appears as if \$30,896 for purchase commitments plus G&A of \$5,252 should appear as a questioned cost instead of an accepted cost for Item 7. This will be determined at the time of our negotiation meeting.											
10	<u>Contractor's Proposal</u>			270,383	208,529	62,562	26,010	106,870	20,725	118,163	813,242
	Incurred Costs			126,100	35,244	10,573	42,074	85,605	5,555	51,876	357,027
	Estimated Costs										
	Total -			<u>396,483</u>	<u>243,773</u>	<u>73,135</u>	<u>68,084</u>	<u>192,475</u>	<u>26,280</u>	<u>170,039</u>	<u>1,170,269</u>
10	<u>Questioned Costs</u>										
	Incurred Costs - Variance Factor	1				41,443					
	G&A	6									
	Estimated Costs - Factory Labor	2			3,971	1,191					
	Purchase commitments	4	30,896								
	Variance Factor	5				7,193					
	G&A	6									
	Total -		<u>30,896</u>	<u>3,971</u>		<u>49,827</u>					

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Contract Item No.	DESCRIPTION	COLUMS						Tools & Test Equip't	G&A	TOTAL
		Sch. Ref.	Direct Material	Factory Labor & Overhead	Factory Cost Variance	Eng'g Mat'l	Eng'g Labor			
10	<u>Accepted Costs</u>									
	<u>Incurred Costs</u>		270,383	208,529	21,119	26,010	106,870	20,725	84,322	737,958
	<u>Estimated Costs</u>		95,204	31,273	2,189	42,074	85,605	5,555	39,292	301,192
	Total -		<u>365,587</u>	<u>239,802</u>	<u>23,308</u>	<u>68,084</u>	<u>192,475</u>	<u>26,280</u>	<u>123,614</u>	<u>1,039,150</u>
11, 12	<u>Contractor's Proposal</u>									
& 13	<u>Incurred Costs</u>		159,785	88,562	26,533	6,631	34,266	30,138	58,806	404,721
	<u>Estimated Costs</u>		53,954	25,165	7,550	12,336	12,878	9,497	20,635	142,015
	Total		<u>213,739</u>	<u>113,727</u>	<u>34,083</u>	<u>18,967</u>	<u>47,144</u>	<u>39,635</u>	<u>79,441</u>	<u>546,736</u>
11, 12	<u>Questioned Costs</u>									
& 13	<u>Incurred Costs</u> - Variance Factor	1			17,556				2,985	20,541
	G&A	6							14,557	14,557
	<u>Estimated Costs</u> - Factory Labor	2		2,835	851				627	4,313
	Purchase Commitments	4	24,044						4,088	28,132
	Variance Factor	5			5,136				873	6,009
	G&A	6							1,768	1,768
	Total		<u>24,044</u>	<u>2,835</u>	<u>23,543</u>				<u>24,898</u>	<u>75,320</u>
11, 12	<u>Accepted Costs</u>									
& 13	<u>Incurred Costs</u>		159,785	88,562	8,977	6,631	34,266	30,138	41,264	369,623
	<u>Estimated Costs</u>		29,910	22,330	1,563	12,336	12,878	9,497	13,279	101,793
	Total		<u>189,695</u>	<u>110,892</u>	<u>10,540</u>	<u>18,967</u>	<u>47,144</u>	<u>39,635</u>	<u>54,543</u>	<u>471,416</u>
14 & 15	<u>Contractor's Proposal</u>									
	<u>Incurred Costs</u>		130,693	25,432	7,630	388	3,563	387	28,576	196,669
	<u>Estimated Costs</u>		25,093	1,352	406	5,290	1,456	106	5,729	39,432
	Total		<u>155,786</u>	<u>26,784</u>	<u>8,036</u>	<u>5,678</u>	<u>5,019</u>	<u>493</u>	<u>34,305</u>	<u>236,101</u>
14 & 15	<u>Questioned Costs</u>									
	<u>Incurred Costs</u> - Variance Factor	1			5,087				865	5,952
	G&A	6							6,507	6,507
	<u>Estimated Costs</u> - Factory Labor	2		197	60				43	300
	Material	3	3,535						1,051	7,231
	Variance Factor	5			265				45	310
	G&A	6							539	539
	Total		<u>3,535</u>	<u>197</u>	<u>5,412</u>	<u>2,645</u>			<u>9,050</u>	<u>20,839</u>

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Contract Item No.	DESCRIPTION	Sch. Ref.	Factory				Tools & Test Equip't	G&A	TOTAL
			Direct Material	Factory Labor & Overhead	Cost Variance	Eng'g Mat'l			
14 & 15 Accepted Costs									
Incurred Costs	130,693	25,432	2,543	388	3,563	387	21,204	184,210	
Estimated Costs	21,558	1,155	81	2,645	1,456	106	4,051	31,052	
Total -	<u>152,251</u>	<u>26,587</u>	<u>2,624</u>	<u>3,033</u>	<u>5,019</u>	<u>493</u>	<u>25,255</u>	<u>215,262</u>	

Item No. 16 Contractor's Proposal

Purchased parts & material in fabricated parts	274,216
Factory labor & overhead, at standard costing rates applied to standard or measured hours (time study)	13,631
Provision for additional time & cost - factory labor & overhead - 30%	4,089
Provision for Packing & Packaging cost - 9.4%	291,936
Total Works Delivery Cost	27,442
	<u>319,378</u>

Item No. 16 Questioned Costs

Net excess of prices used in pricing Bill of Material over prices from purchase orders & other sources	5,253
Errors in reversing proposed revisions which had been included in original draft of Price Redetermination proposal	982
Related G&A Expense	6,235
Difference between proposed rate of 17% and adjusted rate of 15% or 2% X costs of \$317,334	1,060
	7,295
	6,347
	<u>13,642</u>

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~~SECRET~~SCHEDULE 1WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment to Variance Factor - Incurred Costs

Contractor applied a 30% Variance factor to convert recorded factory costs from standard costs to approximate actual costs. The conversion of standard costs to actual by use of variance rates is a recognized practice; however, the recognized practice is to apply the variance determined by relating the aggregate of standard costs processed during a period with the aggregate actual costs involved during the same period. The 30% rate was not determined in this manner, and could not be substantiated.

The auditor ascertained that up to 31 December actual labor costs for the contract were maintained and utilized for progress billing purposes. By relating these actual costs plus factory overhead at rates acceptable to the cognizant Navy auditor for 1956 reimbursement, to recorded standard costs for the contract, a variance of 10% was derived. The auditor has utilized this rate to apply to recorded costs through 28 February 1957, with this resultant adjustment:

<u>Item</u>	<u>Difference due to use of 10% rather than 30%</u>	<u>Applicable G&A</u>	<u>Total</u>
7	\$ 2,251	\$ 383	\$ 2,634
10	41,443	7,045	48,488
11, 12 & 13	17,556	2,985	20,541
14 & 15	5,087	865	5,952
Total	\$ 66,337	\$ 11,278	\$ 77,615

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~~SECRET~~**SCHEDULE 2**

WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011

Adjustment of Factory Labor - Estimate

Contractor utilized a rate of approximately \$6.20 per hour to cost estimated factory labor hours. This rate resulted from increasing the composite 1956 rate by $6\frac{1}{2}\%$, and is intended to represent an estimate of the 1957 composite rate. The auditor ascertained that the rate being utilized in 1957 was \$5.50 per hour, and has adjusted the proposed factory cost as follows:

<u>Item No.</u>	<u>Difference due to rate Differential</u>	<u>Variance Factor</u>	<u>Applicable G&A</u>	<u>Total</u>
10	\$ 3,971	\$ 1,191	\$ 878	\$ 6,040
11, 12 & 13	2,835	851	627	4,313
14 & 15	197	60	43	300
Total	\$ 7,003	\$ 2,102	\$ 1,548	\$ 10,653

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SCHEDULE 3

WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011

Adjustment of Material Estimate

The estimate to complete for Items 14 and 15 included a duplicate provision for engineering material for anticipated engineering changes, in the amount of \$2,645.

The estimate for Items 14 and 15 also included provision for \$3,535 for additional spare parts. The parts in question are those referred to in paragraph 2 of letter of Contracting Officer dated 5 September 1957, No. 19086. Since the requirement for the parts has not been approved by the using activity, and no actual costs have been incurred, contractor's representative agreed that their exclusion from the proposal was appropriate.

G and A expense applicable to these items amounted to \$1051.

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Contract FL-3011Purchase Commitments

a. There was an unexplained difference of \$30,896 for Contract Item No. 7 between purchase commitments shown in the contractor's working papers underlying the proposal and the amount reflected in records maintained on a continuous basis by the CPFF accounting group. The total, after adding G&A expenses of \$5,252, is questioned. \$36,148

b. Included in the estimate to complete are three items pertaining to one vendor:

Item 7 - Amount shown as committed	\$15,000	
Applicable G&A	<u>2,550</u>	<u>17,550</u>
Item 11,12,13 - Amount for PO BC - 72,912	4,356	
Amount related to PO BC - 72,900	<u>4,563</u>	
PO BC -	<u>78,900</u>	<u>19,688</u>
	<u>24,044</u>	
Applicable G&A	<u>4,088</u>	<u>28,132</u>

These were explained in Contractor's price redetermination file as follows:

Item 7: "Form AAE-31E - 2E - Item No. 7. No. AAD-30175 - Work is completed on this item. Any further engineering support should be charged to XAA-92399. Excepted is possible relief on PO's, CA82753 and CA82755. Estimate they will require about \$15,000 additional. Contact Bill _____ in purchasing".

Item 11, 12, 13 - PO BC 72912: Letter from Purchasing Dept. to F.K. re bid proposal. "Order PO 72912 as reduced from 14 to 10 was for \$10,890; as of this date (3/13/57) two must be replaced with the possibility of an additional two. This could result in additional cost of \$4,356."

PO BC 78900: Letters from Purchasing Dept. to FK, dated 3/13 & 14/57: "Approval granted by customer for 10 units for costs up to \$28,540.44. Replacement costs for 2 known defective units and possibly 2 not yet tested could increase above amount by \$14,636. Vendor's estimate of increased costs of certain testing is performed by vendor at his plant - \$5,052. Company's 1. ability on P.O. could possibly total \$48,228.44 as shown." The auditor noted that \$28,540.44 for the Purchase Order was approved by the Contracting Officer on 1/28/57, and an additional \$2,303.26 was approved on 7/9/57. The auditor believes that no payments have been made to the vendor. The auditor was not able to determine whether the contingencies which could result in \$24,044 additional costs according to the referenced correspondence were satisfied by the additional approval of \$2,303.26 nor whether the vendor should not be held liable for defective units, rather than the customer.

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SECRETSCHEDULE 5

WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011

Adjustment of Variance Factor - Estimate

Contractor applied to the estimated factory cost the variance factor of 30% described in Schedule 1.

Information obtained by the auditor, as to the method by which hours for completion of the contract were estimated, indicates that actual cost experience rather than forecasting standards were used. For this reason the auditor is of the opinion that the costs derived from the estimates should be computed in the same manner as standard costs used in the cost records. This would call for application of a variance factor consistent with that used in Schedule 1, but for a different accounting period. A computation by the contractor's accountants for the year 1957, based on nine months actual costs and a three-month projection indicated that the 1957 variance was approximately 7%. The auditor recommended use of that rate, and has computed the following adjustment:

<u>Item No.</u>	<u>Difference due to use of 7% rather than 30%</u>	<u>Applicable G & A</u>	<u>Total</u>
10	\$ 7,193	\$1,223	\$ 8,416
11, 12 & 13	5,136	873	6,009
14 & 15	265	45	310
Total	\$12,594	\$2,141	\$14,735

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~~SECRET~~SCHEDULE 6WESTINGHOUSE ELECTRIC CORPORATION
Contract FL-3011Adjustment of General and Administrative Expenses

Contractor used an estimated 17% G&A rate to all costs in the proposal. The auditor recommends use of different rates for each of the accounting periods involved.

The 17% rate represents an estimated rate for 1957. The cognizant Navy auditor advised that 15% was more likely to be the final negotiated 1957 rate. He further advised that negotiations which would take place to set the 1956 rate would result in a rate not in excess of 12%.

The auditor has adjusted the proposed G&A expenses by use of the rates recommended by the Navy auditor, as follows:

	Item No.				
	<u>7</u>	<u>10</u>	<u>11,12 & 13</u>	<u>14 & 15</u>	<u>Total</u>
Difference of 5% applied to accepted 1956 incurred costs	\$7,144	\$22,886	\$13,323	\$ 5,415	\$48,768
Difference of 2% applied to 1957 incurred costs	212	3,910	1,234	1,092	6,448
Estimated Costs	<u>67</u>	<u>5,231</u>	<u>1,768</u>	<u>539</u>	<u>7,605</u>
Total -	<u><u>\$7,423</u></u>	<u><u>\$32,027</u></u>	<u><u>\$16,325</u></u>	<u><u>\$ 7,046</u></u>	<u><u>\$62,821</u></u>

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